CHAPTER XVIII

Social Economics and Social Welfare Minima

—*K. William Kapp*

In paying homage to the memory of D. P. Mukherji, we honor a social scientist who has worked in a tradition of social inquiry which, in many respects, is the antithesis of classical and neo-classical economic analysis. We refer to the tradition of institutional or social economics which holds diametrically opposing views concerning the nature, scope and purpose of social analysis as campared with orthodox economics. Whereas the latter treats the socio-cultural framework such as the institutional and value saystem, (e. g. the degree of competition, the distribution of power between different social group, the tastes and habits of consumers, existing skills, techniques, the scope of governmental control, etc.) as given, social economics considers these factors as true variables which are not only subject to change but of strategic importance in social causation. Hence, whereas orthodox economics may be said to treat the economy as a closed, or at best a semi-closed system, social economics views the economy as an open system which is embedded in a socio-cultural matrix of which it is a part and from which it receives its structural and organizing principles as well as a variety of "disturbing" impulse. Whereas classical economics postulates a tendency toward self-correction and equilibrium as either actually operative or at least as the most fruitful hypothesis for theoretical analysis of the economic process, social economics advance the principle of cumulative causation as the main hypothesis for the study of social processess. While traditional economics is thus preoccupied with the search for levels of equilibrium defined in terms of economic and individualistic utility criteria, social economics is concerned with various social inefficiencies reflected in social ("unpaid") costs as well neglected social benefits of various sorts as the characteristic outcome of social processes left to themselves. Whereas classical economics tends to abstract from power and conflict which are believed to be kept under control or at least not subject to abuse and while neo-classical economic has re-introduced some elements of market

power into its models of duopoly and oligopoly, social economics considers group conflicts and power in its original and countervailing from as regular social phenomena which social inquiry can ignore only at the risk of serious distortion. Whereas neo-classical economic tends to confine economic science to the study of rational conduct or rather to the forms assumed by human behavior in disposing of scarce means (L. Robbins), social economics concerns itself with the actual provision of goods and services for the satisfaction of actual individual and public purposes in a changing socio-cultural environment.[1] While orthodox economics and particularly "normative" or welfare economics develop criteria of optimality in terms of subjectively defined utilities or revealed preferences, social economics looks toward an objectification of social welfare criteria and aims at establishing social budgets of supply and demand which take account of productive powers and potentialities as well as of shortfalls in consumption and social welfare minima. Whereas neo-classical concepts define wealth (and production) in terms of utilities which are scarce appropriable and hence marketable and social economics widens the concept to include these social or public utilities which are not fully appropriable by an individual producer or consumer but diffuse themselves to all members of society and hence are not exchangeable. (Cases in point are such important public goods and prerequisites of economic development as science, technology, education, health, transportation and the whole range of goods and service usually referred to as social overhead or infra-structure. Whereas traditional economics says more or less aloof from any considerations of the quality of life and culture which emerge under different forms of economic organization, social economics considers the evaluation of the consequences of different forms of organization as a matter of legitimate concern for the social scientist. In this way it preserves the critical responsibility of social inquiry, it remains a "science of dissent" which will not justify a particular *status quo* merely on the ground that it survives and is "successful." Indeed, it refuses to accept as criteria of success those superficial

1. "Economics is the study of the structure and functioning of the evolving field of human relations which is concerned with the provision of material goods and services for the satisfaction of human wants.....economics is the study of the changing patterns of cultural relations which deal with the creation and disposal of scarce material goods and services by individuals and groups in the light of their private and public aims." See A.G. Gruchy, *Modern Economic Thought*, New York, Prentice Hall, Inc. 1947, pp. 550 and 552.

cannons of judgment on the basis of which different forms of social organization tend to "measure" their respective performance. Above all, social economics refuses to regard man as an object, or what is the same thing, as a resource or capital : instead it considers man whether in his capacity as a worker or a consumer as an end of all economic activity. In short, social economics insists on as essentially humanistic approach in its analysis of economic processes.

It would not be difficult to extend this catalogue of opposites[1] in an effort of further clarifying the relative positions of orthodox and social economics. However, the foregoing list may suffice to indicate that we are confronted not merely with different theoretical representations of economic systems and social processes but with radically diverging notions as to the scope, method and objectives of social analysis. While this does not preclude the possibility of an occasional synthesis between specific conclusions, it should serve as a word of caution against the ever present temptation to reconcile opposites, or in this case specific concepts and theories which start from different epistemological points of departure.

Above all it must be emphasized that what is at issue is not the question of theory versus ideographic description of particular events, or, for that matter, of abstraction and simplification versus common sense empricism, but rather what kinds of concepts and what kinds of theories are appropriate and required in order to discover underlying regularities and to explain the causal relationships in social systems. Social economics has always insisted that the particular complexity of social processes, occurring as they do in essentially open systems, makes it essential that social inquiry follows the lead of its subject matter and adapts its concepts and its theorizing to the nature of the specific problem with which it has to deal. That is to say both concepts and methods of theorizing in the social sciences must be such as to enable us to take account of the typically open character of the particular social system which interests us as social scientists. This perception of the essentially open character of social systems commits social inquiry to a type

1. For an earlier attempt to develop such a list of opposites see J.M. Clark's experiment in the simultaneous truth of opposites and his surmise that the *antitheses* of some of the axioms of orthodox economics may contain a more urgent and vital truth for the present generation than the traditional axioms. "The socializing of Theoretical Economic" reprinted in *Preface to Social Economics*, New York, Farrer and Rinehart, 1936, pp. 3-43 ; esp. pp. 22. ff.

of theory which does not abstract from what are precisely the key chracterstics of social processes and social behavior: the fact namely that they occur within a network of interrelatoinships from which they derive their pattern. Hence to treat social systems as closed or even semi-closed systems may enable us to arrive at generalizations concerning isolated uniformities or logical interrelationships between one or two variables. However, the power of prediction of such pure theories is bound to be limited. For purposes of prediction in social inquiry we need a framework of theoretical analysis which takes into account the interaction of a greater number of variables. This is essentially the meaning of D. P. Mukherji's insistence on the need for systematic social inquiry: "When I say theory I do not mean isolated propositions summarising observed uniformities of relationships between two or more variables howsoever useful and precise the establishment of such propositions may be. I mean by theory another type of generializations which logically hangs together, from which 'statement of invariance' can be derived, and into which the type of isolated propositions mentioned above can be logically fitted."[1]

In the following we propose to deal with three pairs of opposites which we consider to be of control significance for economic and social theory: the concept of human behavior versus that of rational action, the principle of cumulative causation versus equilibrium analysis and the contrast between social welfare minima and criteria of formal optimality.

Rational Action versus Human Behavior

Social inquiry can accept the concept of rational action which pure economic theory has developed only as a fiction of strictly limited and indeed doubtful significance. No doubt, human behavior and choice are marked by deliberations and fore-thought as well as other factors. However, the conclusion that the individual performance for A against B must be due to the expectation of greater pleasure is a retrospective interpretation of choice *as if* all alternative "sources of pleasure" had been compared. Actually such a retrospective interpretation is purely verbal or tautological in as much as it simply designates as greatest pleasure that

1. D.P. Mukherji, "Indian Sociology and Tradition" in *Sociology, Social Research and Social Problems In India*, R.N. Saxena (ed.) Bombay, The Asia Publishing House, 1961, p. 21.

what has been chosen.[1] But apart from the purely verbal character of the "solution", the concept of rational action is ankered in the problemational attempt to consider as comparable and measurable what Bergaon had shown to be not magnitudes (i.e. quantitative *increases* or *decreases*) Or equalities in sensations of "pain" or "pleasure" (or disutilities and utilities) but qualitatively different sensations of increases or decreases.[2]

There is still another reason why the concept of rational action n the voluntaristic-individualistic sense must remain doubtful and misleading as a frame of reference. This was pointed out by D. P. Mukherji : "I have the following that the frame of reference, which is the first requisite of a theory, is not the 'actor-situation' as Talcott Parsons would have it, for the simple reason that the unit of the Indian social system is not 'the individual as actor, as an entity which has the basic characteristics of striving towards the attainment of "goals", of "reacting emotionally or affectively towards objects and events and of, to a greater or lesser degree cognitively knowing or understanding his situation, his goals and himself.' Action for the Indian is not individualistic in that sense ; it is 'inherantly structured on a normative teleological', but not on a 'voluntaristic system of coordinate of axis'....."[3]

This is precisely the point which needs to be raised not only with regard to human conduct in India but in relation to human action in general and particularly the action of consumers in affluent societies. For in such societies consumers' wants and preferences are continuously and indeed to an over increasing extent shaped by producers and sellers with a commercial interest in individual preferences and choices. In fact, not only consumers' preferences and choices are being influenced by advertising and sales promotion, but the rate of obsolescence (i.e. the effective life-span of goods and services) is deliberately shortened. For this reason as well as for reasons shown earlier by Dewey and Myrdal it becomes clear that the traditional teleological means—ends schemata must always remain an arbitrary division of reality. Not only are "ends" not given but they are themselves means to some further more distant "ends."

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1. W. Stark, Diminishing Utility Reconsidered in KYKLOS, Vol. 1, 1947, 4, p. 334.

2. *Ibid.* p. 323.

3. D. P. Mukerji, *op. cit.* p. 24.

Furthermore to distinguish ends and means and to give the former some separate ultimate status is contradicted by the fact that "ends" and "means" stand in a dynamic relationship to each other in the sense that ends need to be changed in the light of and continuously adjusted to available resources.[1] Under these circumstances it becomes urgently necessary to replace the ideal type concept of rational action by a real type concept of human behavior. Such a concept can be constructed only on the basis of an empirically verified theory of motivation which takes full account of the nature of man both as a product and a maker of his culture. Such a concept of human behavior takes account of the influence of tradition, values, habits, emotions in concretely specified cultural situations. While excluding the possibility of deriving from it formal scientific principles of universal validity and relevances the real type concept of human behavior would make it possible to use in economic analysis the results of other social disciplines such as cultural anthropology, social psychology and sociology. This was Max Weber's and also Veblen's intention. It must remain one of the epistemological commitments of social economic analysis which formulated its theory in terms of real types and not in terms of ideal typical concepts (i.e. concepts which are either one-sided accentuations of particular aspects of human behavior or pure fictitious constructs with no counterpart in reality.

Equilibrium Analysis versus Cumulative Causation

Turning from the concept of human behavior to the problem of social causation social inquiry at the same time broadens the frame of reference and the unit of investigation by introducing as a working hypothesis the principle of cumulative causation. (By working hypothesis we mean "a guiding principle of interpretation in the light of which we look at facts in order to see whether it improves our understanding.")[2] Like the real type concept of human behavior

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1. For a more detailed analysis of the reasons which induce us to consider the traditional ends-means schemata as logically inadequate and untenable see Gunnar Myrdal, "Ends and Means in Political Economy" reprinted in *Value in Social Theory*, Paul Streeten (ed.), London, Routledge, Kegan Paul, 1958, pp. 206-230 and Paul Streetan, *op. cit.* Introduction pp. XXI-XXV. For an earlier discussion of the ends-means problem see John Deway, *Human Nature and Conduct*, New York, Henry Holt and Co. 1962.

2. R. G. Collingwood, *The Idea of History*, New York, Oxford University Press, 1956 p. 94. See also Arthur Schweitzer, The Method of Social Economics, mimeographed manuscript 1961.

referred to above the principle of cumulative causation follows the lead of the subject-matter with which social inquiry is concerned : it drawst he logical conclusions from the fact that various social sub-systems are typically open and interacting systems and each embedded in a socio-cultural environment from which they receive their structural i.e. their 'organizing direction.' Unlike the model of equilibrium analysis and marginal valuation which Weblon rejected as "technological" in character, the principle of cumulative causation views social process (events) as the outcome of a circlular and hence cumulative process in which a number of causes interact upon each other and with their effects. As soon as the scope of social inquiry is thus adapted to the open character of its subject-matter social analysis is concerned with processes of considerable complexity which differ radically from those perceived in the light of the narrower frameworks of interpretation which follow the pattern of the principle of equilibrium analysis. Instead of giving rise to tendencies towards self-corroboration and balance the interaction of causes and effects tends to take place in such a manner as to push the process on and on in the same direction. While there may develop countervailing forces tending towards balance of a more or less unstable character, the specific social processes which we observe within the context of such a unstable and precarious balance are cumulative and self-sustaining. In short, they are on-going and dynamic processes in the course of which the entire social system may change. Whereas equilibrium analysis views social processes as deviations from or movements toward some assumed underlying order or position of "normalcy", the principle of cumulative causation provides a principle of interpretation which permits us to encompass in a single theoretical framework a great number of causal factors together with their effects. It focusses attention from the very outset on the reciprocal interaction of cause and effect and thereby alerts us to the self-sustaining character of social processes and their outcome. Above all it directs our attention away from the futile search for the primary cause of social events. Nevertheless it is and remains from beginning to end a framework of *causal* analysis rather than the teleological search for level of "normaly" or equilibrium. In fact the principle of cumulative causation is peculiarly suited to serve as the main hypothesis for all social inquiry. In form and origin the principle of cumulative causation differs from that of pure theory ; it does not operate with ideal types but stays at the level of what has been called "Gestalt" theory

making use of real types or categories.[1] Nothing will prevent the social scientist from using the principle of cumulative causation for the elaboration of specific theories for such special problems of social dynamics as economic fluctuations, the emergence of social costs in business enterprise, the rise of juvenile delinquency, the persistence of racial prejudice and caste discrimination or the drift toward regional economic indequalities within a country or the growth of disparities between developed and under-developed countries.[2] For these reasons we believe with Myrdal that the principle of cumulative causation provides the most fruitful working hypothesis for the study of underdevelopment and economic growth.

In a much neglected remark V. Pareto pointed out that serious difficulties arise in the study of phenomena from the fact that "many causes interweave their effects" and that pure science (e.g. the mathematical theory of equilibrium) would be of little or no use in overcoming these difficulties. If the mathematician Pareto was correct in his appraisal of these difficulties, it would seem to follow that social inquiry must aim at some form of analysis which avoids both a naive empiricism which fails to remove itself from the world of phenomena (e. 4. process, events) and pure theory which constructs its concepts and models in terms of ideal or fictitious types. Social science in order to be successful as an instrument of prediction must stay at an intermediate level of analysis between the ideographic approach of many historians and the level of abstraction at which pure theory or mathematics prefer to proceed. Causes and effects in social systems interweave in a concatonation of reciprocal and cumulative interaction. Hence, if social inquiry is to follow the lead of its subject-matter it has no other choice than to stay closer

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1. For a distinction of real types and ideal types or for that matter of "Gesalt" theory and pure theory see A. Spiethoff, "Pure Theory and Economic "Gesalt" theory ; Ideal Types and Real Types" in *Enterprise and Secular Change*, F. C. Lane and J. C. Riermersma (ed.), Homewood, III, R. D. Irwln, 1953 pp. 444-463.

2. Indeed the principle of cumulative causation was first developed as a result of and in connection with the study of the negro problem in the United States and the recognition of increasing international economic disparities for which traditional theoretical frameworks were unable to account for satisfactorily. See. G. Myrdal, *An American Dilemma, The Negro Problem in Modern Democracy*, 2. Vls. New York, Harper and Brothers, 1944.

3. V. Pareto, "On the Economic Phenomenon—A Reply to Benedetto Crocs" reprinted in *International Economic Papers*, No. 3, New York, The MacMillan Company, 1953, p. 185.

to the world of experience than pure theory and mathematics are capable of doing without adhering simply to a phenomenological or ideographic-descriptive approach of particular events.

Social Welfare Minima Versus Formal Optima

The foregoing analysis leads directly to the theory of optimum allocation of resources and to the formulation of criteria for economic planning. Most schemata of allocation and optimization are derived from the logic of rational choice. They define a position of formal optimum with apparent precision. However, such precision is the result of withdrawing into the verbal part of pure theory. These schemata do not and cannot transcend the limited horizon of their own tautologies. They assume that the hypothetical, decision-making, entities (individuals, governments) act rationally even though they may not necessarily imply that the actual world of experience is made up of rational and efficiency-seeking man or agencies. The essential limitations of all formal schemata of rational allocation and optimization rest not so much on the lack of realism of their underlying assumptions—even though one sometimes wonders how wide a gap between assumption and reality can be tolerated in social theorizing—but on the fact that they are capable of defining optimal solutions only undergiven i.e. state conditions. This is due to the fact that as all pure theory they are formulated without reference to social space and time. That is to say they do not take into account, and are indeed incapable of taking into account, either the actual historical conditions and possible time horizons of society, or the actual basic needs and requirements of human life in a given social milieu. Hence as the result of their tautological character and due to the fact that their failure to specify any particular social space and historical time makes them incomplete they are not only inherently behavioristic but in effect take existing institutional frameworks for granted. Moreover they tend to operate with an artificially limited individualistic time horizon. Under these conditions they define at best partial (individualistic) optima rather than a general social solution of the problem of social efficiency which could claim general validity. Above all they are not based upon substantive desiderata and objective requirements of human life and survival either now or in the future. They do not include within the range of their considerations the possibilities of changes in, or alternative institutional arrangements which might make possible improvements in allocation

and social efficiency. Instead, they are at best only second or third best solutions of the problem of social efficieney. In short, as already pointed out, they are in form and content purely formal definitions rather than substantive solutions of the problem of disposing of scarce means. Orthodox economics has been slow to admit these limitations of pure theory for the formulation of substantive welfare criteria. In fact it is only during the last years that increasing attention has heen devoted to the more important shortcomings and ambiguities of all formal definitions of social optima. Indeed, "the wreck of welfare economics"[1] or of what has been called "economic welfarism"[2] and "welfare scholasticism"[3] respectively stems precisely from a growing realization that there is no bridge from formal welfare and utility concepts to social welfare in any substantive sense of the word because these formal definitions are based upon an analytically feasible but substantively false distinction of individual and social aims and "economic" and "non-economic" ends. Hence the formal definition of economic efficiency in the allocation of scarce resources remains empty and ambiguous because it provides neither operational nor indeed correct criteria for the interpretation of the degree of success or failure in the solution of the problem of social efficiency. The solution of the problem of social efficiency is not a formal or abstract technical problem which can be solved like a crossword puzzle, by filling words (means) into empty spaces (ends) until all spaces are "coherently" filled (criteria of optimality). Hence it becomes necessary to look for alternative criteria which are substantively and operationally useful for the formulation of practical policies of allocation or planning. In short, we cannot avoid the delicate and difficult task of formulating objective alternative criteria for the allocation of resources and the determination of the rationality of the performance of an economic systems. This is a problem of the greatest practical significance which urgently calls for an answer by social scientists. We cannot go here beyond offering a few rudimentary suggestions. We agree with those who have pointed out that the real issue connected with the elaboration of substantive welfare indicators cannot be handled

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1. J. Baumol, *Welfare Economics and the Theory of the State*, London, Longmans Green, 1952. (Epilogue).
2. J. R. Hicks, *Essays in World Economics*, Oxford at the Clarendon Press, 1959, preface, p. VIII.
3. G. Myrdal, *Value in Social Theory*, London, Routledge and Kegan Paul, 1958, p. 242.

within a formal framework of economics. Such subjectivist categories as consumers' surplus and revealed preferences or even social welfare functions, or external economies are not capable of catching either the broader non-economic aspects of social welfare or the important "externalities" of costs and benefits to which I refer as social costs and social benefits.[1] In fact, as long as we inquire merely into the formal structure of rational action and aim only at formulating formal criteria of rationality and optimality we cannot hope to develop operational criteria of the performance of concrete economic systems. Criteria of substantive rationality can be derived only from a substantive theory of essential human needs and behavior. Such a theory must take account of the dynamic structure of human needs (physical and mental), their objective and cultural determinants in different social milieus and may well have to start from an analysis of the individual and social consequences of any failure to mainiain at least a social minimum for all members of society and indeed of mankind. To this effect it will be necessary to define with greater precision what Veblen once called the actual costs of gross output "counting costs in terms of manpower and necessary consumption"[2] and what Francois Parrons calls the costs of man ("count de l' homme"[3]). These minimum costs measure the basic and essential requirements of human life and survival which, if not satisfied over a period of time, diminish human vitality, undermine physical and mental health and in the end are capable of destroying man himself. As just pointed out these minimum costs of human life can be determined and must be defined with reference to the specific conditions of a given social and cultural milieu. If they are not covered for all members of society all averages and all calculations in terms of aggregate net national income must remain as Perroux points out naive and indeed devious measurements.[4] These minimum costs of basic human needs and survival may be assumbed to be sufficiently identical over time and similar to space to permit an approximate,

1. K. William Kapp, *The Social Costs of Bussiness Enterprise*, Bombay, The Asia Publishing House, 1963.

2. Th. Veblen, *The Vested Interest and the Common Man*, New York, The Viking Press, 1919, p. 63.

3. F. Perroux, *Feindliche Kcexistens*, Stuttgart, K. E. Schwab, 1961, p. 552—

4. *Ibid.* p. 553.

objective determination and quantification.[1] Thus, it is known what the minimum requirements in calorific intake under different conditions are, and we also know that there are wide disparaties in such intakes between different countries, and between different groups within a given society. Similarly we can establish the negative effects of shortage of essential proteins and vitamins in terms of their temporary and permanantly damaging effects on the human organism and their temporary and permanent impairment of human vitality and efficiency.[2] Similarly, the negative effects of such inadequate level of nutrition and inadequate medical care can be expressed in terms of increased rates of morbidity and mortality and lower rates of life expectancy. In modern industrial societies maximum tolerable levels of water and air pollution have been calculated[3] which it could be dangerous and indeed fatal to ignore because any contamination in excess of these levels endangers human health and human life. In short, the determination of the minimum requirements or elementary human needs makes it possible to objectify a considerable part of the prerequisites of human (i.e. civilized) life and of social welfare. To do so does not involve us in arbitrary, incomplete and erroneous decisions. On the contrary, they are objective and scientifically substantiated measurements at our disposal. Conversely, to ignore these objective minimum requirements on the grounds that the principles of economizing are not concerned with substantive criteria of optimality and must abstract even from what science may show to be essential does indeed give rise to an incomplete, partial, arbitrary and erroneous definition of optimality.

Once we have determined the minimum costs of human life in terms of basic and elementary needs we shall have at our disposal a set of objective welfare indicators which would enable us to program at least the minimum economic and social tasks of civilized societies. The translation of these indicators into the formulation of practical

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1. " . . . the wants of men are sufficiently identical over time and similar in space to assume that they all want food, shelter, clothing, transportation, amusement, intellectual fare, and the life ; that the specific forms which these wants take differ from time to time and place to place with the technology and complexity of production and social organization, but nevertheless, there is essential parallelism residing in the identity of man as a member of the species homo sapiens." S. Kuznets, "National Income and Economic Welfare" in *Economic Change*, New York, W. W. Norton, 1953, p. 294.

2. A. Keys, etc. al. *The Biology of Human Starvation*, 2 vls. Minneapolis, The University of Minnesota Press, 1950.

3. K. William Kapp, *op. cit*. esp. chps. on air and water pollution.

welfare policies becomes then a manageable problem by planning systematically the gradual removal of the actually observed gaps and deficiencies. Such gradual i.e. incremental improvements rather than the attainment of an operationally undefinable optimum provides the appropriate and operational model of rational forethought and rational policy making.

We need not spell out here in detail the practical steps necessary to translate social welfare minima into economic policies. Suffice it to say that so far not even the most advanced countries among the developed nations have made systematic use of the opportunities offered by objective welfare indicators of the kind outlined above. As a result, the degree of success in the performance of their economic system, as well as the degree of substantive rationality and social efficiency in the performance of their respective economic systems still fall far short of their objective potentialities. Nor indeed can the developing countries claim to have paid much attention to the attainment of the social welfare in their planning and allocation decisions aiming at accelerated development. The systematic elaboration of social welfare minima can serve not only as a criterion of allocation and social planning but as the basis of objective benchmark surveys showing how far either industrial economic systems (of either the Western or the Soviet type) or the economies of underdeveloped countries fall short in meeting the minimum requirements of civilized human existence.